

SOUTH CAROLINA
DEPARTMENT OF TRANSPORTATION

SUPPLEMENTAL FEDERAL FINANCIAL
ASSISTANCE REPORTS

YEAR ENDED JUNE 30, 2014

State of South Carolina



Office of the State Auditor

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RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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December 19, 2014

The Honorable Nikki R. Haley, Governor
and
Members of the South Carolina Transportation Commission
South Carolina Department of Transportation
Columbia, South Carolina

The supplemental federal financial assistance reports of the South Carolina Department of Transportation and the accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, for the fiscal year ended June 30, 2014, was issued by Scott and Company, LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/cwc

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**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDING JUNE 30, 2014**

Federal Grantor / Program Title	Federal CFDA Number	Total Federal Expenditures	Expenditures To Sub-recipients
Direct Programs:			
U.S. Department of Transportation			
Highway Planning and Construction	20.205	\$ 621,589,573	\$ 2,371,124
Highway Planning and Construction - American Recovery & Reinvestment Act – ARRA	20.205	1,345,075	—
Federal Transit - Capital Investments Grants	20.500	2,804,145	2,278,448
Federal Transit - Metropolitan Transit Planning and State and Non-Metropolitan Planning and Research Grants	20.505	169,086	27,007
Formula Grants for Rural Areas	20.509	8,321,762	8,321,762
Formula Grants for Rural Areas – ARRA	20.509	157,428	157,428
Enhanced Mobility for Seniors and Individuals with Disabilities	20.513*	1,083,514	1,083,514
Job Access and Reverse Commute Program	20.516*	1,227,562	1,219,331
New Freedom Program	20.521*	980,697	967,161
Public Transportation Research	20.514	101,347	18,154
Alternatives Analysis	20.522	84,543	35,979
Capital Assistance Program for Reducing Energy Consumption & Greenhouse Gas Emission	20.523	2,013,584	2,013,584
Total Direct Programs		<u>639,878,316</u>	<u>18,493,492</u>
U.S. Department of Homeland Security			
Pass Through S.C. Emergency Management Division:			
Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	<u>3,397,096</u>	<u>—</u>
Total Passed Through From S.C. Emergency Management Division		<u>3,397,096</u>	<u>—</u>
Total Expenditures of Federal Awards		<u>\$ 643,275,412</u>	<u>\$ 18,493,492</u>

* These programs are part of the Transit Services Programs Cluster.

SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

1. Basis of Presentation:

The information in the Schedule of Expenditures of Federal Awards is presented in accordance with the requirements of *OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations* (as amended).

The financial information shown in the Schedule of Expenditures of Federal Awards reflects amounts recorded by the South Carolina Department of Transportation during its fiscal year July 1, 2013 through June 30, 2014. This information is presented on the accrual basis of accounting.



**Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters based
on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Carolina Department of Transportation (the "Department") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated October 28, 2014. Our report includes a reference to other auditors who audited the financial statements of the Connector 2000 Association, Inc., a discretely presented component unit of the Department, as described in our report on the Department's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Connector 2000 Association, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department's Response to Finding

The Department's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Scott and Company LLC".

Columbia, South Carolina
October 28, 2014

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

Mr. Richard H. Gilbert, Jr., CPA
Deputy State Auditor
State of South Carolina
Columbia, South Carolina

Report on Compliance for Each Major Federal Program

We have audited the South Carolina Department of Transportation's (the "Department") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2014. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Department, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements. We issued our report thereon dated October 28, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Scott and Company LLC

Columbia, South Carolina
December 19, 2014

**SOUTH CAROLINA DEPARTMENT OF TRANSPORTATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014**

Section I—Summary of Auditors' Results

Financial Statements:

We have issued an unmodified opinion dated October 28, 2014 on the financial statements of South Carolina Department of Transportation.

Internal control over financial reporting:

- Material weaknesses identified? Yes
- Significant deficiency identified? None reported
- Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major federal programs:

- Material weaknesses identified? No
- Significant deficiency identified? None reported

We have issued an unmodified opinion dated December 19, 2014 on South Carolina Department of Transportation's compliance for its major programs.

- Any audit finding disclosed that is required to be reported in accordance with section 510(a) of OMB Circular A-133? No

Identification of Major Programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.205	Highway Planning and Construction
20.205ARRA	Highway Planning and Construction – American Recovery & Reinvestment Act
20.500	Federal Transit – Capital Investments Grants
20.523	Capital Assistance Program for Reducing Energy Consumption & Greenhouse Gas Emissions
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to be distinguished between Type A
and Type B Programs: \$3,000,000

Auditee qualified as low-risk auditee? No

Section II – Financial Statement Findings

Condition Considered to be a Material Weakness

2014-1 Review and reconciliation of capital asset balances

Condition:

The Department improperly adjusted infrastructure capital asset balances to an overstated amount not supported by accounting records. Additionally, capital outlay was also recorded at an overstated amount not supported by accounting records.

Cause:

The Department did not reconcile current year capital outlay expenditures to current year capital asset additions. Additionally, incorrect infrastructure project detail reports were used to make adjustments to capital asset, maintenance expenditures, and capital outlay expenditures. Finally, appropriate review was not performed over the balance and adjusting entries which allowed the overstated amount to be reported.

Effect:

An adjustment was made during the current year to remove approximately \$497 million of infrastructure capital assets that were incorrectly recorded during the current year. Additionally, approximately \$117 million of capital outlay expenditures were reclassified to maintenance expenditures. This adjustment had no effect on the Department's cash balances.

Criteria:

Sound internal control systems require that reported account balances agree to detail sub-ledgers. Additionally, review by an appropriate staff member should be performed for all reported balances to assist in detecting materially misstated amounts.

Recommendation:

We recommend that the Department reconcile current year capital outlay expenditures to current year capital asset additions before presenting reported amounts for audit testing. This process will aid in determining the proper adjustments to record capital asset balances. Additionally, we recommend that a management level review be performed for all material account balances and that no material account balances be reported before that review is performed.

Section III- Federal Award Finding Findings and Questioned Costs

None

Summary Schedule of Prior Audit Findings:

During the current year audit, we reviewed the status of corrective action taken on the Financial Statement Findings and Federal Award Findings and Questioned Costs as reported in our prior year's reports on internal control and compliance of the Department dated November 21, 2013. We found that adequate corrective action was taken for all of the findings.



South Carolina
Department of Transportation

Deputy Secretary for Finance and Procurement
James R. Warren
(803) 737-1240 Fax (803) 737-0096

December 19, 2014

Richard H. Gilbert, Jr., CPA
Deputy State Auditor
Office of the State Auditor
1401 Main Street, Suite 1200
Columbia, SC 29201

RE: Management Response Fiscal Year 2014

Dear Mr. Gilbert:

The South Carolina Department of Transportation (the "Department" or "SCDOT") respectfully submits the following Corrective Action Plan for the year ended June 30, 2014.

The plan outlines actions taken, or to be taken, to address each deficiency contained in the audit report prepared by Scott and Company LLC (the "Auditor") dated October 28, 2014 for the SCDOT FY 2014 Financial Statements and GAS Report and December 19, 2014 for the OMB Circular A-133 Report.

The Department takes the recommendations of the Auditor seriously and views them as an opportunity to make improvements in controls and reporting. The audit recommendation is repeated prior to our response and numbered as in the audit report.

Internal Controls over Financial Reporting

Condition Considered to be a Material Weakness

2014-1 Review and reconciliation of capital asset balances

Condition:

The Department improperly adjusted infrastructure capital asset balances to an overstated amount not supported by accounting records. Additionally, capital outlay was also recorded at an overstated amount not supported by accounting records.

Cause:

The Department did not reconcile current year capital outlay expenditures to current year capital asset additions. Additionally, incorrect infrastructure project detail reports were used to make adjustments to capital asset, maintenance expenditures, and capital outlay expenditures. Finally, appropriate review was not performed over the balance and adjusting entries which allowed the overstated amount to be reported.



Effect:

An adjustment was made during the current year to remove approximately \$497 million of infrastructure capital assets that were incorrectly recorded during the current year. Additionally, approximately \$117 million of capital outlay expenditures were reclassified to maintenance expenditures. This adjustment had no effect on the Department's cash balances.

Criteria:

Sound internal control systems require that reported account balances agree to detail sub-ledgers. Additionally, review by an appropriate staff member should be performed for all reported balances to assist in detecting materially misstated amounts.

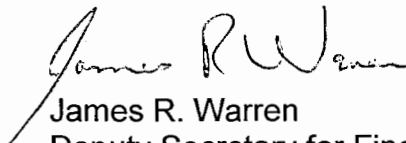
Recommendation:

We recommend that the Department reconcile current year capital outlay expenditures to current year capital asset additions before presenting reported amounts for audit testing. This process will aid in determining the proper adjustments to record capital asset balances. Additionally, we recommend that a management level review be performed for all material account balances and that no material account balances be reported before that review is performed.

SCDOT Corrective Action:

The Department will reconcile current year capital outlay expenditures to current year capital asset additions before presenting reported amounts for audit testing. A management level review will be performed for all account balances and no account balances be reported before that review is performed. Management review will include reconciling infrastructure capital asset balances to accounting records using correct infrastructure project detail sub-ledgers.

Sincerely,



James R. Warren
Deputy Secretary for Finance and Procurement

ec: Alfred Comfort III, SCDOT Financial Controller

